

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA NIACT IMMEDIATE

INFO AMCONSUL WINNIPEG PRIORITY

AMCONSUL TORONTO BY POUCH

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PASS TO AMBASSADOR PRIOR TO 7:30 AM JULY 8 FROM VINE

E.O. 11652:N/A

TAGS: EINV, CA

SUBJECT: POTASH--AMBASSADOR'S CALL ON SASKATCHEWAN PREMIER
BLAKENEY

1. FOLLOWING POINTS ARE INTENDED FOR USE IN YOUR JULY 13
CALL ON SASKATCHEWAN PREMIER BLAKENEY. DEPARTMENT WILL BE
MOST INTERESTED IN LEARNING FIRST-HAND OF BLAKENEY'S
CURRENT INTENTIONS IN VIEW OF INDICATIONS WE HAVE HAD THAT
PROVINCE MAY BE THINKING OF STRETCHING OUT AND PERHAPS
REVISING ITS EARLIER GOAL OF ACQUIRING A MAJORITY OF THE
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POTASH PRODUCTION FACILITIES IN THE PROVINCE.

2. -- A PRINCIPAL CONCERN OF THE USG IS THAT AN EXPROPRIATION OR FORCED SALE OF U.S. ASSETS IN THE POTASH INDUSTRY IN SASKATCHEWAN WILL ADVERSELY AFFECT THE ATTITUDE OF U.S. BUSINESSMEN TOWARD INVESTMENT IN CANADA IN GENERAL AND SASKATCHEWAN IN PARTICULAR. IT IS CLEAR FROM RECENT STATEMENTS BY FEDERAL MINISTERS THAT CANADA WILL CONTINUE TO REQUIRE LARGE AMOUNTS OF FOREIGN CAPITAL TO MEET ITS FUTURE ECONOMIC DEVELOPMENT NEEDS, AND THAT DIRECT INVESTMENT WILL CONTINUE TO BE WELCOMED AS A VEHICLE FOR SUCH FUNDS. JOHN BURTON OF THE SASKATCHEWAN POTASH SECRETARIAT MADE SIMILAR STATEMENTS ON BEHALF OF THE GOS WHEN HE WAS IN WASHINGTON RECENTLY. NEVERTHELESS, MORE AND MORE OFTEN

WE HEAR INFLUENTIAL U.S. CORPORATE LEADERS EXPRESS THE VIEW THAT A CLIMATE FOR STABLE AND PROFITABLE FOREIGN INVESTMENT NO LONGER EXISTS IN CANADA, AND FOREIGN INVESTMENT IS NOT REALLY WELCOME IN CANADA ANYMORE. SASKATCHEWAN'S PLANS FOR THE POTASH INDUSTRY HAVE ALREADY ADVERSELY INFLUENCED INVESTOR CONFIDENCE IN CANADA SIGNIFICANTLY. EXPROPRIATION BY THE PROVINCE OR ACQUISITION OF A DOMINANT POSITION IN THE POTASH INDUSTRY WOULD FURTHER ERODE INVESTOR CONFIDENCE TO THE DETRIMENT OF CANADIAN, SASKATCHEWAN AND U.S. INTERESTS.

3. -- SERIOUS CONCERN HAS ALSO BEEN EXPRESSED IN THE UNITED STATES THAT SHOULD THE SASKATCHEWAN GOVERNMENT ATTAIN A DOMINANT POSITION IN THE POTASH INDUSTRY IT WOULD HAVE THE POWER TO MANIPULATE POTASH SUPPLIES AND PRICES TO THE DETRIMENT OF THE U.S. FARMER. YOUR (BLAKENEY'S) STATEMENTS ON THIS SUBJECT, APPARENTLY INTENDED TO ALLAY CONCERN IN THE U.S., HAVE BEEN WELCOME. YOU SHOULD EXPECT, HOWEVER, THAT IF THE PROVINCIAL GOVERNMENT DOES INDEED BECOME THE DOMINANT PRODUCER OF POTASH IN SASKATCHEWAN ITS ACTIONS WILL BE UNDER CLOSE SCRUTINY BY U.S. CONSUMERS. PRICE FLUCTUATIONS WHICH DO NOT SEEM TO ACCURATELY REFLECT UNDERLYING SUPPLY AND DEMAND FACTORS WILL BE VIEWED WITH GREAT SUSPICION IN THE U.S., AND COULD WELL LEAD TO PRESSURE FOR RETALIATORY ACTION.

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4. -- THE PROVINCE'S ANNOUNCED PROGRAM OF ACQUIRING A SIGNIFICANT PORTION OF THE INDUSTRY HAS ALREADY SPARKED A SEARCH FOR ALTERNATE SOURCES OF POTASH. YOU (BLAKENEY) WILL BE AWARE OF SERIOUS NEGOTIATIONS TAKING PLACE BETWEEN U.S. FERTILIZER FIRMS AND THE SOVIET UNION, AS WELL AS NEW INTEREST IN DEVELOPING POTASH DEPOSITS IN NEW BRUNSWICK AND NORTH DAKOTA. WHILE SUCH DEVELOPMENTS ARE IN THE INTEREST OF THE U.S. CONSUMER OF POTASH, THEY MAY WELL RUN

CONTRARY TO THE INTERESTS OF SASKATCHEWAN AND THE POTASH MINING FIRMS WHICH ARE ALREADY COMMITTED IN THE PROVINCE. IMPLEMENTATION OF SASKATCHEWAN'S ACQUISITION PLANS CAN ONLY SERVE TO ACCELERATE THIS DRIVE FOR DIVERSIFICATION OF SUPPLY.

5. -- SHOULD SASKATCHEWAN ACT TO EXPROPRIATE THE ASSETS OF A U.S.-OWNED FIRM OR FIRMS OPERATING IN THE PROVINCE, WE WILL EXPECT THAT COMPENSATION WILL BE PROMPT, ADEQUATE AND EFFECTIVE BY INTERNATIONAL STANDARDS. OUR POLICY IN THIS REGARD IS LONG STANDING AND ON THE PUBLIC RECORD, AND THE USG WILL PAY CLOSE ATTENTION TO ANY EXPROPRIATION ACTION AFFECTING U.S. INVESTORS TO SEE THAT IT IS CONSISTENT WITH INTERNATIONAL REQUIREMENTS. IN THIS CONNECTION WE HAVE UNDER REVIEW THE PROVINCE'S LEGISLATION AS AMENDED, INCLUDING THE ADEQUACY OF THE COMPENSATION PROVISIONS, AS WELL AS SUBSEQUENT LEGAL DEVELOPMENTS AMONG THE PARTIES.

6. -- WE ARE AWARE, OF COURSE, OF THE PROVINCE'S DISCUSSIONS WITH THE DUVAL CORPORATION, AND ACCORDING TO MR. BURTON DISCUSSIONS AIMED AT EVALUATION OF ASSETS ARE IN PROGRESS WITH TWO OTHER FIRMS AS WELL. THE PROVINCE SHOULD BE AWARE THAT ANY SALES OF U.S.-HELD ASSETS WHICH RESULT FROM THESE DISCUSSIONS WILL BE CLOSELY SCRUTINIZED IN THE U.S. TAKEOVER OF THE ASSETS OF ALL OF THE FIRMS IN THE INDUSTRY IS APPARENTLY BEYOND THE INTENT, AND PERHAPS BEYOND THE FINANCIAL RESOURCES OF THE SASKATCHEWAN GOVERNMENT. THUS AN OPPORTUNITY MAY ARISE IN THE NEAR FUTURE FOR THE PROVINCE AND THE REMAINING FIRMS IN THE INDUSTRY TO TRY TO WORK OUT TERMS AND CONDITIONS UNDER WHICH THE BENEFITS TO THE PEOPLE OF SASKATCHEWAN FROM POTASH COULD BE MAXIMIZED WHILE AT THE SAME TIME THE INDUSTRY WOULD HAVE AN OPPORTUNITY TO EARN A REASONABLE RATE OF RETURN. IT SEEMS LIMITED OFFICIAL USE

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CLEAR THAT RECENT EVENTS, CHARACTERIZED BY WITHHELD TAXES, ALLEGATIONS OF BROKEN ROYALTY AGREEMENTS, EX POST FACTO APPLICATION OF LAWS AND NUMEROUS LAW SUITS, ARE NOT CONDUCTIVE TO THE DEVELOPMENT OF SUCH A MODUS VIVENDI. WE ARE ENCOURAGED, THEREFORE, BY THE RECENT DECISION OF THE INDUSTRY TO PROVIDE FINANCIAL DATA TO THE PROVINCE ON A COMPANY-BY-COMPANY BASIS, AND WE ARE HOPEFUL THIS GESTURE WILL CONTRIBUTE TO A LARGER MUTUAL ACCOMMODATION. IF THE USG CAN HELP FACILITATE THIS PROCESS WE WILL MAKE EVERY EFFORT TO DO SO.

7. FOLLOWING INFORMATION ON THE STATUS OF NEGOTIATIONS ON A POSSIBLE POTASH FOR PHOSPHATE BARTER DEAL BETWEEN AGRICO CORPORATION AND THE SOVIET UNION IS PROVIDED FOR BACKGROUND PURPOSES. ACCORDING TO AGRICO VP VESTON, TWO

WEEKS OF TALKS RECENTLY IN MOSCOW DID NOT LEAD TO A COMPLETED AGREEMENT, BUT THE PROJECT IS STILL VERY MUCH ALIVE. DELAY IS RESULT OF (A) RUSSIAN PROCLIVITY TO BARGAIN HARD OVER EVERY CLAUSE AND (B) DIFFICULTY IN ESTABLISHING ADEQUATE PRODUCT QUALITY ASSURANCES. APPARENTLY PRICE IS NOT A CONTENTIOUS ISSUE. U.S. EXPORT PRICE WILL BE USED FOR PHOSPHATE, AND REFERENCE PRICE FOR POTASH WILL BE LINKED IN SOME WAY TO SASKATCHEWAN PRICES SO THAT PRODUCT WILL BE COMPETITIVE IN U.S. MARKET. WESTON VOLUNTEERED INFORMATION THAT AGRICO HAS ALSO BEEN TALKING INFORMALLY TO POTASH CORPORATION OF SASKATCHEWAN OFFICIALS FOR 18 MONTHS ABOUT A POSSIBLE LONG-TERM POTASH SUPPLY ARRANGEMENT. MORE FORMAL DISCUSSIONS MUST AWAIT ACQUISITION BY PCOS OF A POTASH MINE OR MINES. AGRICO WOULD PREFER TO DEAL WITH SASKATCHEWAN THAN WITH THE SOVIETS, BUT IT MUST ARRANGE FOR A STEADY SOURCE OF SUPPLY SOON OR IT WILL RISK LOSING ITS MARKETS. HENCE THE COMPANY'S DECISION TO SEEK A BARTER DEAL WITH THE SOVIET UNION. KISSINGER

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